

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6519

BILL NUMBER: SB 107

DATE PREPARED: Mar 29, 2001

BILL AMENDED: Mar 29, 2001

SUBJECT: Public Pensions.

FISCAL ANALYST: James Sperlik

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill:

- (1) specifies that the additional annuity savings account contributions that may be made by a Public Employees' Retirement Fund (PERF) member or an Indiana State Teachers' Retirement Fund (TRF) member may not exceed 10% of the member's compensation;
- (2) provides that a governing body of a unit that is participating in PERF is not required to request a survey of the estimated cost of participation, and the PERF board is not required to provide an estimate of the costs of participation, when the unit provides that additional classifications of employees will become members of the Fund and the actuary for the Fund finds there would be no material change in the current or continued employer contribution rate for that unit because of the additional classification;
- (3) specifies that, in the case of PERF members other than state employees, an employer may pay all or a part of the annuity savings account contribution for the employees. (Current law authorizes a PERF employer other than the state to pay either none or all of the contribution but does not allow for partial payment);
- (4) provides that persons employed by TRF are members of TRF;
- (5) provides that even if a firefighter is 36 years of age or older, the firefighter may be reappointed as a member of a department if the firefighter can complete 20 years of service before reaching 60 years of age;
- (6) corrects cross-references to provisions related to police and firefighter disability benefits;
- (7) provides that a member of the board of trustees of the Public Employees' Retirement Fund (PERF) or the Indiana State Teachers' Retirement Fund (TRF) may participate in a meeting of the board using any means of communication that permits all other board members and the public to simultaneously communicate with each other during the meeting;
- (8) provides that PERF and TRF fund records of individual members and membership information shall be treated as confidential, except for the name and years of service of a Fund member;
- (9) provides that a member of the police or fire department may be reappointed to the department if the person is a retired member not yet receiving retirement benefits under the 1925, 1937, 1953, or 1977 Fund;
- (10) adds Emergency Medical Services providers employed to the definition of "public safety officer" for the purposes of providing a special death benefit;

(11) permits a PERF or TRF member to direct that the member's retirement benefit be paid to a revocable trust;

(12) provides that a fire chief or police chief who is appointed under certain waiver provisions and who is receiving, or is entitled to receive, benefits from the 1925, 1937, 1953, or 1977 fund may receive those benefits while serving as chief;

(13) provides that one member of the PERF Board must be a member of a collective bargaining unit of state employees represented by a labor organization or an officer of a local, national, or international labor union that represents state employees;

(14) provides that a park ranger employed in Evansville who attended a law enforcement academy outside Indiana is a member of the 1977 Pension Fund. (Current law provides that a park ranger in Evansville is a member of the fund only if the park ranger attended the Indiana Law Enforcement Academy.);

(15) provides that a member of TRF who served in the military but is not entitled to military service credit under the TRF law shall be granted credit for the military service if the member received a letter or other notice from the executive director of TRF, after 1960 and before 1965, erroneously stating that the member was eligible to receive service credit for the military service. It requires the member to file an application with TRF before December 31, 2001, to claim the service credit;

(16) reimposes an annual earnings limit on a retired member (other than an employee of the Department of Education) of the Public Employees' Retirement Fund (PERF) or the Indiana State Teachers' Retirement Fund (TRF) who has not attained the Social Security normal retirement age for unreduced benefits. It provides that if such a retired member is reemployed in a position covered by PERF or TRF and earns more than \$25,000 in a year, the member's retirement benefit is suspended. The bill also provides that a retired member who has attained normal retirement age for unreduced benefits may be reemployed in a covered position without a suspension of retirement benefits. It provides that the member is entitled to an additional retirement benefit for the period of reemployment. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: (Amended) January 1, 2001 (retroactive); Upon Passage; July 1, 2001.

Explanation of State Expenditures: (Revised) (1) This provision specifies that the additional annuity savings account contributions that may be made by a member of PERF or TRF may not exceed 10% of the member's compensation portion (for a total maximum contribution of 13%).

Fiscal Impact

The impact would depend upon whether the additional contributions for the annuity savings account are picked up and paid by the employer. The state currently picks up the 3% contribution for the annuity savings account. The state is permitted by the bill to pay for the additional employee contribution, however, no additional state contribution is required. Consequently, this provision does not require an increase in expenditures by the state. The funds affected are the State General Fund (55%) and various dedicated funds (45%). (The percentage split represents the amount each fund contributes in the aggregate to the personal services portion of the State Budget.)

(2) This part provides that a governing body of a unit that is participating in PERF is not required to request a survey of the estimated cost of participation, and the PERF board is not required to provide an estimate of the costs of participation, when the unit provides that additional classifications of employees will become members of the fund.

Fiscal Impact

For PERF, there may be a reduction of administrative expenditures, mostly time, associated with this part

of the bill. The fund affected is the Investment Earnings Fund.

(4) This part provides that persons employed by TRF are members of TRF. Currently the TRF has 31 full-time employees. Most of the current employees of TRF are members of PERF. These employees would be required by the bill to transfer from PERF to TRF. Current law, IC 5-10.2-2-8, requires the fund in which the employee was a member to pay the fund responsible for payment of the benefits: (a) the amount credited to the employee in the annuity savings account; and (b) the proportionate actuarial cost of the employee's pension. With this, the transferring employees' past service would be accounted for and paid.

Fiscal Impact

The specific impact on the PERF and TRF is likely to be very minor. The funds affected are the Investment Earnings Fund for both PERF and TRF.

(6) This part corrects cross-references and has no fiscal impact.

(7) This part provides that a member of the board of trustees of PERF or TRF may participate in a meeting of the board using any means of communication that permits all other board members and the public to simultaneously communicate with each other during the meeting.

Fiscal Impact

The funds report that this provision will have no fiscal impact on them.

(8) This part provides that PERF and TRF fund records of individual members and membership information shall be treated as confidential, except for the name and years of service of a Fund member.

Fiscal Impact

The funds report that this provision will have no fiscal impact on them.

(10) This part adds Emergency Medical Services providers employed to the definition of "public safety officer" for the purposes of providing a special death benefit.

Fiscal Impact

The specific impact will depend upon the number of Emergency Medical Services providers added to the list of those eligible for a line-of-duty death benefit. The amount of the line-of-duty death benefit is \$150,000. It is paid from bail bond fees, which have ceased to be collected. There were four payments in FY 2000 totaling \$600,000.

(11) This part permits a PERF or TRF member to direct that the member's retirement benefit be paid to a revocable trust.

Fiscal Impact

The funds report that this provision will have no fiscal impact on them.

(13) This part provides that one member of the PERF Board must be a member of a collective bargaining unit of state employees represented by a labor organization or an officer of a local, national, or international labor union that represents state employees.

Fiscal Impact

This part will have no fiscal impact on the PERF Board.

(15) This part provides that a member of TRF who served in the military but is not entitled to military service credit under the TRF law shall be granted credit for the military service if the member received a letter or other notice from the executive director of TRF, after 1960 and before 1965, erroneously stating that the member was eligible to receive service credit for the military service. It requires the member to file an application with TRF before December 31, 2001, to claim the service credit.

Fiscal Impact

The Teachers' Retirement Fund reports that this specific provision applies to two retirees who received a letter or other notice from the executive director of the TRF. The additional liability is expected to be minimal and the one-time payout for the two retirees is estimated at \$27,521. The fund affected is the State General Fund.

(16) This part reimposes an annual earnings limit on a retired member (other than an employee of the Department of Education) of PERF or TRF who has not attained the Social Security normal retirement age for unreduced benefits. It provides that if such a retired member is reemployed in a position covered by PERF or TRF and earns more than \$25,000 in a year, the member's retirement benefit is suspended. The bill also provides that a retired member who has attained normal retirement age for unreduced benefits may be reemployed in a covered position without a suspension of retirement benefits. It provides that the member is entitled to an additional retirement benefit for the period of reemployment.

Fiscal Impact

Public Employees' Retirement Fund

	State	Local Units	Total
Increase in Unfunded Liability	\$17.4 M	\$31.2 M	\$48.6 M
Increase in Annual Cost	\$2.6 M	\$4.9 M	\$7.5 M
Increase in Cost as a % of Payroll	0.2%	0.3%	0.3%

It has been assumed that members who were age 65 or over would retire immediately.

The funds affected for the state are the State General Fund (55%), or \$1.43 M, and various dedicated funds (45%), or \$1.17 M. (The percentage split represents the percent contributed by the funds in the aggregate to personal services costs in the State Budget.). It is unclear how many Department of Education employees would be affected by the provision excluding them from the reimposition of the annual earnings limit on a retired member if they are members of PERF. Because we do not know how many Department of Education employees would be affected by the provision excluding them from the reimposition of the annual earnings limit on a retired member if they are members of the PERF, the above estimate does not include them.

Teachers' Retirement Fund

	Closed Plan	New Plan	Total
Increase in Unfunded Accrued Liability	\$58.5 M	\$3.2 M	\$61.7 M
Increase in Computed Contribution Rate as a % of Payroll	0.12%	0.11%	
Increase in Payout First Year	\$6.1 M		
Increase in Payout Second Year	\$6.2 M		

It has been assumed that members who were age 65 or over would retire immediately.

The fund affected for the Closed Plan is the State General Fund. Because we do not know how many Department of Education employees would be affected by the provision excluding them from the reimposition of the annual earnings limit on a retired member if they are members of the TRF, the above estimate does not include them.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) (2) This part provides that a governing body of a unit that is participating in PERF is not required to request a survey of the estimated cost of participation, and the PERF board is not required to provide an estimate of the costs of participation, when the unit provides that additional classifications of employees will become members of the fund.

Fiscal Impact

For local units, this part will reduce certain costs associated with their participation in PERF. Currently, local units are required to pay for the survey of the estimated cost of participation when there is a change in the Plan, or when a new unit is joining the Plan. The cost of this survey is \$325 and covers all employees involved.

(3) This provision specifies that, in the case of PERF members other than state employees, an employer may opt to pay all or a part of the annuity savings account contribution for the employees.

Fiscal Impact

This part affects the annuity savings part of the PERF and TRF pensions. The specific fiscal impact will depend upon whether or not the contributions are picked up and paid by the local employer and the number of employees who opt to make the additional contributions. Currently, at the local unit level, for both units participating in PERF and for local school corporations, the 3% pick up is a bargainable item with employers and employees. The employee can make the contributions regardless of whether the employers pick up the additional cost.

(5) This part provides that, even if a firefighter is 36 years of age or older, the firefighter may be reappointed as a member of a department if the firefighter can complete 20 years of service before reaching 60 years of age.

Fiscal Impact

It is anticipated that this section would rarely be utilized. However, should a firefighter be reappointed as

a result of this change and the fiscal body who reappointed the firefighter permits the firefighter to join the 1937 Firefighters' Pension Fund, there could be a significant increase in accrued liability. For example, if a firefighter is reappointed at age 47 with pay of \$41,500 and with ten years of service, then there would be an increase in unfunded accrued liability of about \$342,000. There would be no immediate increase in benefit payments in this example, however, since the person would have ten years of additional service before he would be eligible to retire.

If the reappointed firefighter joins the 1977 Fund (rather than the 1937 Fund) then there would be no fiscal impact beyond the 21% of first class salary annual contribution. This is because any service prior to May 1, 1977, would have to be purchased on an actuarial basis.

(9) This part provides that a member of the police or fire department may be reappointed to the department if the person is a retired member not yet receiving retirement benefits under the 1925, 1937, 1953, or 1977 Fund.

It is anticipated that this section would rarely be utilized. However, should a firefighter or police officer be reappointed as a result of this change and the fiscal body who reappointed the firefighter permits the public safety officer to join the requisite fund, there could be a significant increase in accrued liability. For example, if a firefighter or police officer is reappointed at age 47 with pay of \$41,500 and with ten years of service, then there would be an increase in unfunded accrued liability of about \$342,000. There would be no immediate increase in benefit payments in this example, however, since the person would have ten years of additional service before he would be eligible to retire.

If the reappointed firefighter or police officer joins the 1977 Fund (rather than the 1925, 1937, or 1953 Fund), then there would be no fiscal impact beyond the 21% of first class salary annual contribution. This is because any service prior to May 1, 1977, would have to be purchased on an actuarial basis.

(12) The bill also provides that a fire chief or police chief who is appointed under certain waiver provisions and who is receiving, or is entitled to receive, benefits from the 1925, 1937, 1953, or 1977 Fund may receive those benefits while serving as chief. Based on current information, this provision applies to one fire chief, a member of the 1937 Firefighters' Pension Fund. The retirement benefit of this individual was \$18,000 per year. The increased annual cost to the city would be \$18,000 per year, the amount of the individual's retirement benefit. The unfunded accrued liability would be \$90,000 if the individual continues to receive the retirement benefit for five years. If the period is six years, the unfunded accrued liability would be \$108,000. If this provision applies to more people, the associated costs would be higher.

(14) The bill also provides that a park ranger employed in Evansville who attended a law enforcement academy outside Indiana is a member of the 1977 Pension Fund. (Current law provides that a park ranger in Evansville is a member of the fund only if the park ranger attended the Indiana Law Enforcement Academy.). The specific impact will depend upon the number of Evansville park rangers who attended a law enforcement academy outside Indiana. Currently, there is one Evansville park ranger affected by this proposal. The cost to the city of Evansville, as employer, is 21% of the ranger's salary. There also is a 6% contribution by the park ranger. The city, as employer, may pay all or part of the member's contribution.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund; Teachers' Retirement Fund.

Local Agencies Affected: Units with members in the Public Employees' Retirement Fund; units with members in the 1925, 1937, 1953, and 1977 Police Officers' and Firefighters' Fund; local school corporations; City of Evansville.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for PERF and the Police Officers' and Firefighters' Funds, 576-1508; Denise Jones of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; Mr. Bill Butler, Director of PERF, 233-4133; Mr. Bill Christopher, Director of TRF, 232-3864.

DEFINITIONS

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.

Actuarial Cost Basis A cost that is derived through the use of present values. An actuarial cost often is used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned.